

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1
POSTAL RATE & FEE CHANGES
OF THE SECRETARY

**RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS SHARON DANIEL TO
NASHUA, DISTRICT, MYSTIC & SEATTLE INTERROGATORIES
(NDMS/USPS-ST43-4, 17, 18)**

The United States Postal Service hereby files the responses of witness Daniel to the following interrogatories of Nashua, District, Mystic & Seattle, dated November 5, 1997: NDMS/USPS-ST43-4, 17, and 18.

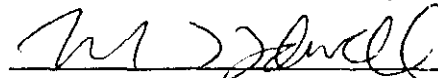
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
Tel: (202) 268-2998 / FAX: x5402
November 20, 1997

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)**

NDMS/USPS-ST43-4.

On page 3 of your testimony (USPS-ST-43) you cite language from the Commission's *Opinion & Recommended Decision* in Docket No. R90-1 expressing satisfaction with the data provided in LR-F-160. Based on your research of prior dockets' treatment of the nonstandard surcharge, please respond to the following questions:

- a. Did any intervenors challenge the proposed nonstandard surcharge in Docket No. R90-1?
- b. Did any intervenors conduct discovery regarding the proposed nonstandard surcharge in Docket No. R90-1?
- c. Did the methodology followed in LR-F-160 differ from the methodology employed by the Postal Service in its filing for Docket No. R78-1? If so, please identify all differences.
- d. Please explain how the methodology followed in LR-F-160 addressed concerns expressed by the Commission in Docket No. R78-1 that the Postal Service had failed to:
 - (i) calculate the effect of productivity changes (since 1973) in determining the cost differential between standard and nonstandard letters;
 - (ii) determine whether the importance of the aged data or the likelihood that the reliability of the data will be improved warrants incurring the additional expense of updating the original data;
 - (iii) provide in its initial filing persuasive analyses justifying its determination not to update the otherwise hoary data; and
 - (iv) exclude costs pertaining to First-Class Mail over one ounce which is not being subjected to a surcharge.
- e. Please explain how and to what extent the methodology utilized in your testimony addresses the concerns expressed by the Commission in Docket No. R78-1 that the Postal Service had failed to:
 - (i) calculate the effect of productivity changes (since 1973) in determining the cost differential between standard and nonstandard letters;
 - (ii) assess whether the importance of the aged data or the likelihood that the reliability of the data will be improved warrants incurring the additional expense of updating the original data;
 - (iii) provide in its initial filing persuasive analyses justifying its determination not to update the otherwise hoary data; and
 - (iv) exclude costs pertaining to First-Class Mail over one ounce which is not being subjected to a surcharge.

RESPONSE:

- a. I am not aware of any alternate intervenor proposals. According to the

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PRC R90-1 Opinion at page V-15 [5035],

"The Service's [nonstandard surcharge] proposal is uncontroverted on the record."

- b. I am not certain. I am informed that none of the designated interrogatory responses of witness Lyon's relate to the nonstandard surcharge.
- c. Docket No. R78-1, the Postal Service used LIOCATT data for costs by shape and examined more cost segments than just mail processing. In Docket No. R90-1, the Postal Service examined mail processing differences and admitted that looking at delivery costs would widen the difference. In Docket No. R90-1, we used MODS data for productivities and estimates of average number of handlings instead of LIOCATT. We also assumed the cost of handling parcels and IPPs to be the same as handling flats manually, though we admitted this was a conservative approach. In Docket No. R90-1, we used operation specific piggyback factors and made peak load adjustments. It is my understanding that in Docket No. R78-1, we didn't make peak load adjustments and looked at indirect costs on a cost segment by cost segment basis using R77-1 distribution keys.
- d.
 - (i) Productivities were updated in R90-1.
 - (ii)-(iii) The importance of the age of the volume shares or a justification for not updating the market research data was not discussed to the best of my knowledge. All other data were updated to the best of my knowledge.
 - (iv) Excluding costs pertaining to First-Class mail over one ounce which is not subject to a surcharge was not addressed in the Docket No. Library Reference LR-F-160.
- e.
 - (i) Productivities were updated in R97-1.
 - (ii)-(iii) More recent volume shares were provided in Exhibit USPS-43C. It should be noted that these shares more closely match the After Rates

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volume shares forecasted by the Commission in R78-1 and used in Docket No. R84-1 Library Reference E-8. The likelihood that the reliability of the data would be improved by using more recent RPW data uncovered during discovery prompted its inclusion in the supplemental testimony and discussed on page 2.

(iv) The difficulty in excluding costs pertaining to First-Class mail over one ounce which is not subject to a surcharge was addressed in supplemental testimony USPS-ST-43 at pages 2 through 3.

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NDMS/USPS-ST43-17.

- a. What per piece weight do you assume for (i) single piece and (ii) presort "manual letter mail" for which you develop processing costs in Exhibit USPS-43B.
- b. Exhibit USPS-43B is titled "Development of First Class Mail Processing Unit Costs; First-Class Non-Automation Presort Non-Machinable Mail." Does this exhibit develop the unit mail processing costs for (i) all First-Class letter mail which is manually handled, (ii) First-Class letter mail which is nonstandard in size, or (iii) something else. Please explain.
- c. Please explain in narrative terms the graphical portrayals at pages 3-5 and pages 8-10 of Exhibit USPS-43B. Please provide full scale versions of these graphics as a library reference.
- d. Please explain any changes between the methodology employed to develop manual letter processing costs in Docket No. R90-1 and that used in your testimony.

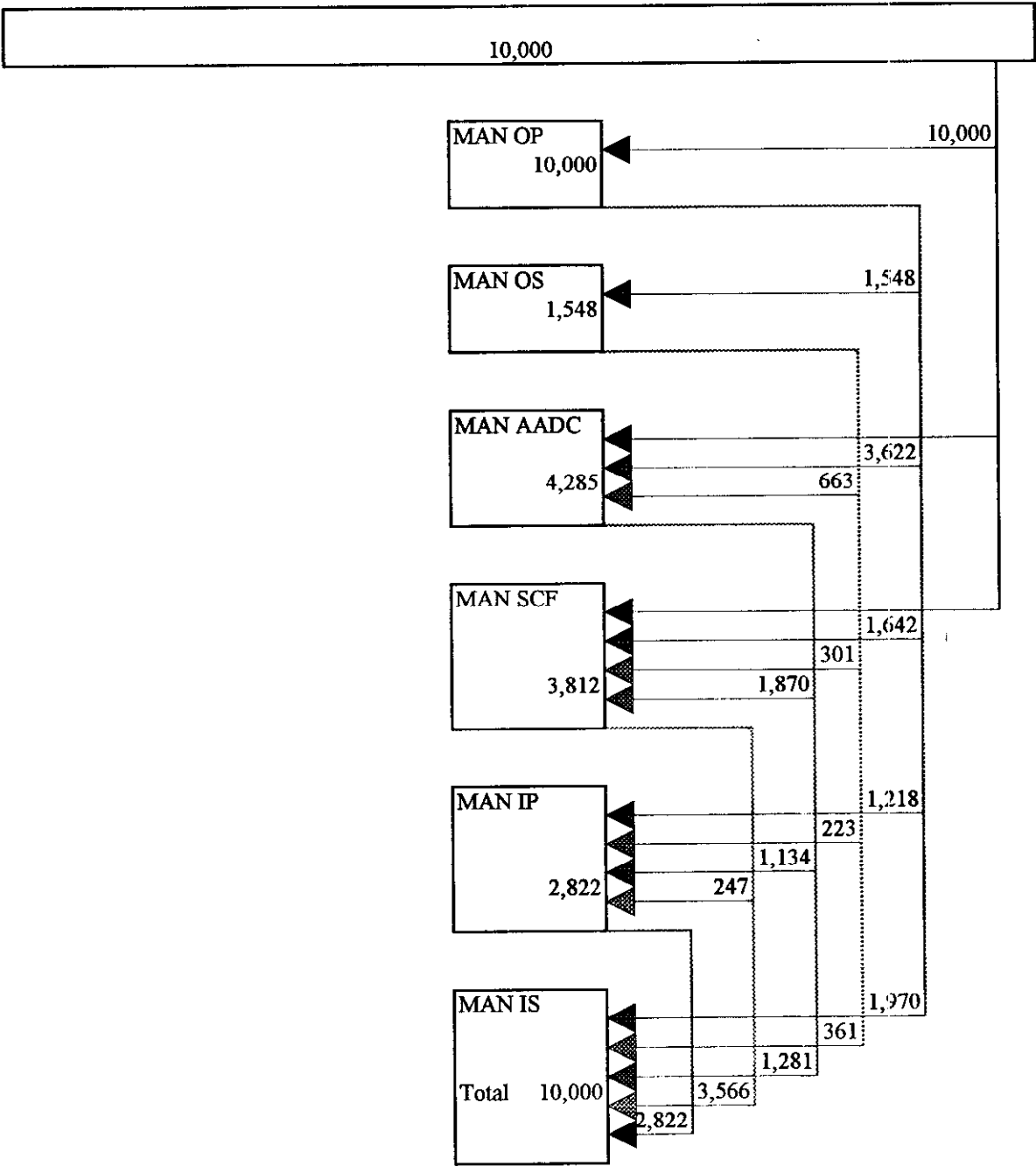
RESPONSE:

- a. An average weight is implicit in the models. See response to NDMS/USPS-ST43-16a.
- b. First-Class letter mail that is manually handled.
- c. The graphical portrayals are identical to the diagrams in witness Hatfield's testimony; however, the amount of mail on each flow path except for manual processing has been set to zero. All 10,000 single-piece nonstandard letters enter at manual *outgoing primary* and *presort* enters manual operations at the same sort level as presort letters in USPS-T-25 Appendix I page 31 of 37. The letters then flow to subsequent manual operations using the manual downflow density data found in USPS-T-25 Appendix I page 34 of 37. Thus the graphical portrayals, and cost summary pages, can be simplified as shown in the attachment.
- d. The methodology employed in R90-1 assumed 3.0749 manual handlings and R97-1 assumes 3.2467 manual handlings. R90-1 used an average manual sorting productivity from AP 1-4 of FY90 MODS data and R97-1 uses annual FY96 MODs productivities at each sort level divided by an average manual sorting volume variability. R90-1 used piggyback factors and premium pay factors, and made peak

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load adjustments. R97-1 uses piggyback factors and premium pay factors, does not make peak load adjustments, but does tie model cost to the CRA using fixed and proportional CRA adjustments.

First-Class Single Piece Nonstandard Letter Mail Flow



Manual IS at non-auto sites 930
Manual IS at auto sites 9070

Simplified First-Class Single-Piece Nonstandard Letter Mail Processing Unit Cost Summary

	[1] TPF	[2] Pieces per Hour	[3] Wage Rate	[4] Cents per Piece	[5] Piggyback Factor	[6] Premium Pay Adjustment	[7] Cents per Piece	[8] Weighted Cost	
<u>Outgoing Primary</u>									
Manual	10,000	662	\$25.45	3.8437	1.3720	0.0423	5.3158	5.3158	
<u>Outgoing Secondary</u>									
Manual	1,548	691	\$25.45	3.6823	1.3720	0.0405	5.0927	0.7884	
<u>ADC/AADC Distribution</u>									
Manual	4,285	759	\$25.45	3.3524	1.3720	0.0369	4.6364	1.9868	
<u>SCF Operations</u>									
Manual	3,812	896	\$25.45	2.8398	1.3720	0.0312	3.9275	1.4973	
<u>Incoming Primary</u>									
Manual	2,822	562	\$25.45	4.5276	1.3720	0.0498	6.2616	1.7671	
<u>Incoming Secondary</u>									
Manual/Non-Auto Sites	930	1,143	\$25.45	2.2261	1.3720	0.0245	3.0787	0.2863	
Manual/Auto Sites	9,070	646	\$25.45	3.9389	1.3720	0.0433	5.4474	4.9408	
<u>Other</u>									
Mail Prep/Cancellation	10,000						0.5698	0.5698	1/
Sort to P. O. Boxes:									
DPS and SS	0	2,341	\$25.45	1.0868	1.3660	0.0120	1.4965	0.0000	
Non-DPS or SS	890	1,171	\$25.45	2.1735	1.3660	0.0239	2.9929	0.2664	
 % DPS	0.00%	2/							
MODEL COST								17.4188	3/
Proportional Adj								1.1586	
Fixed Adj								0.3573	
TOTAL COST								20.54	

Row 1/: Appendix V, page 1 of 2, LDC 79 unit cost (business mail entry).

Row 2/: DPS percentage from flow model (CSBCS and DBCS accepted volumes as a percent of total pieces).

Row 3/: Total model cost (sum of column 8).

Row 4/: Appendix III, page 4 of 5, row 1.

Column [1]: Pieces processed in each operation from flow model.

Column [2]: Volume variable mail processing productivities by operation (Appendix I, page 32 of 37).

Column [3]: Test year clerk and mail handler wage rates (Library Reference H-146).

Column [4]: (Column 3 * 100) / Column 2.

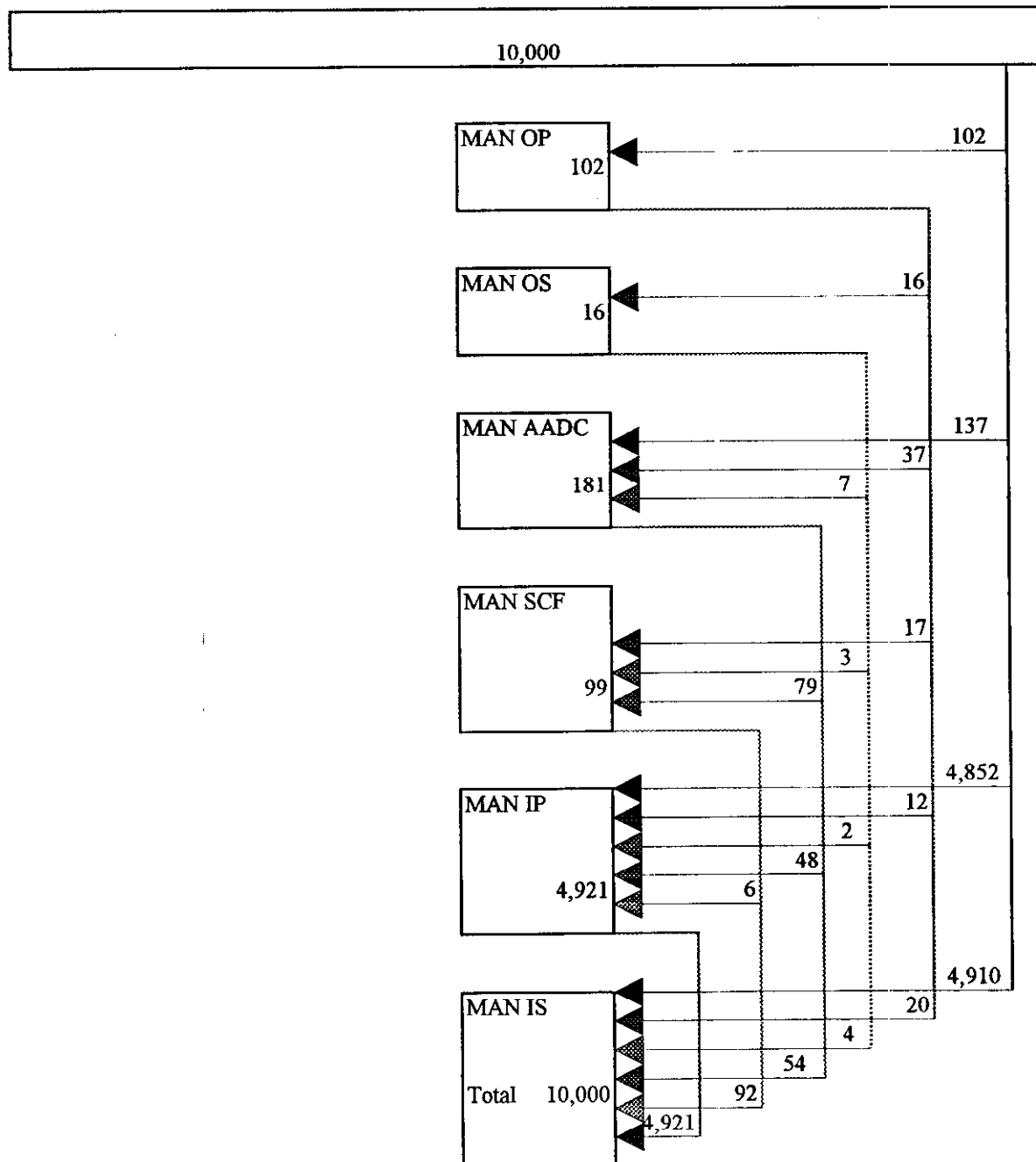
Column [5]: Mail processing piggyback factors by operation (Library Reference H-77).

Column [6]: Column 4 * (First-Class presort premium pay adjustment - 1). See LR-H-77.

Column [7]: Column 4 * column 5 + column 6.

Column [8]: Column 1 * column 7.

First-Class Presort Nonstandard Letter Mail Flow



Manual IS at non-auto sites 930
Manual IS at auto sites 9070

Simplified First-Class Presort Nonstandard Letter Mail Processing Unit Cost Summary

	[1] TPF	[2] Pieces per Hour	[3] Wage Rate	[4] Cents per Piece	[5] Piggyback Factor	[6] Premium Pay Adjustment	[7] Cents per Piece	[8] Weighted Cost								
<u>Outgoing Primary</u>																
Manual	102	662	\$25.45	3.8437	1.3720	0.0423	5.3158	0.0541								
<u>Outgoing Secondary</u>																
Manual	16	691	\$25.45	3.6823	1.3720	0.0405	5.0927	0.0080								
<u>ADC/AADC Distribution</u>																
Manual	181	759	\$25.45	3.3524	1.3720	0.0369	4.6364	0.0837								
<u>SCF Operations</u>																
Manual	99	896	\$25.45	2.8398	1.3720	0.0312	3.9275	0.0387								
<u>Incoming Primary</u>																
Manual	4,921	562	\$25.45	4.5276	1.3720	0.0498	6.2616	3.0811								
<u>Incoming Secondary</u>																
Manual/Non-Auto Sites	939	1,143	\$25.45	2.2261	1.3720	0.0245	3.0787	0.2892								
Manual/Auto Sites	9,061	646	\$25.45	3.9389	1.3720	0.0433	5.4474	4.9357								
<u>Other</u>																
Accept./Verification	10,000						0.0699	0.0699	1/							
Sort to P. O. Boxes:																
DPS and SS	0	2,341	\$25.45	1.0868	1.3660	0.0120	1.4965	0.0000								
Non-DPS or SS	890	1,171	\$25.45	2.1735	1.3660	0.0239	2.9929	0.2664								
Bundle Sorting	10,000						0.7386	0.7386	4/							
 % DPS	 0.00% 2/															
						<table><tr><td>MODEL COST</td><td>9.5655</td></tr><tr><td>Proportional Adj</td><td>1.1586</td></tr><tr><td>Fixed Adj</td><td>0.3573</td></tr><tr><td>TOTAL COST</td><td>11.44</td></tr></table>		MODEL COST	9.5655	Proportional Adj	1.1586	Fixed Adj	0.3573	TOTAL COST	11.44	3/
MODEL COST	9.5655															
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Row 1/: Appendix V, page 1 of 2, LDC 79 unit cost (business mail entry).

Row 2/: DPS percentage from flow model (CSBCS and DBCS accepted volumes as a percent of total pieces).

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Column [4]: (Column 3 * 100) / Column 2.

Column [5]: Mail processing piggyback factors by operation (Library Reference H-77).

Column [6]: Column 4 * (First-Class presort premium pay adjustment - 1). See LR-H-77.

Column [7]: Column 4 * column 5 + column 6.

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NDMS/USPS-ST43-18.

Using your formula, set out under "B. Results" of Exhibit USPS-43C, please confirm the following constitutes the calculation for single piece and presort.

Single Piece

(1)	Manual Letters	\$0.2054	
	Average Letters	<u>\$0.1174</u>	
		\$0.0880	
	X proportion of letters	<u>19.3%</u>	\$0.0170
(2)	Flats	\$0.3243	
	Average Letters	<u>\$0.1174</u>	
		\$0.2069	
	X proportion of flats	<u>73.1%</u>	\$0.1512
(3)	Parcels	\$0.7408	
	Average Letter	<u>\$0.1174</u>	
		\$0.6234	
	X proportion of parcels	<u>7.6%</u>	\$0.0474
(4)	Total		\$0.2156

Presort

(1)	Manual Letters	\$0.1144	
	Average Letters	<u>\$0.0460</u>	
		\$0.0684	
	X proportion of letters	<u>18.3%</u>	\$0.0125
(2)	Flats	\$0.2087	
	Average Letters	<u>\$0.0460</u>	
		\$0.1627	
	X proportion of flats	<u>77.4%</u>	\$0.1259

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(3)	Parcels	\$0.2196	
	Average Letter	<u>\$0.0460</u>	
		\$0.1736	
	X proportion of parcels	<u>4.2%</u>	\$0.0073
(4)	Total		\$0.1457

RESPONSE:

Confirmed as to the volume inputs and the original cost inputs. The calculations differ slightly due to rounding. An errata in USPS LR-H-106 changes the cost inputs of presort flats from \$0.2087 to \$0.2074 and presort parcels from \$0.2196 to \$0.3789.

The new cost inputs and cost calculations are as follows:

Single Piece

(1)	Manual Letters	\$0.2054	
	Average Letters	<u>\$0.1174</u>	
		\$0.0880	
	X proportion of letters	<u>19.3%</u>	\$0.0169
(2)	Flats	\$0.3243	
	Average Letters	<u>\$0.1174</u>	
		\$0.2069	
	X proportion of flats	<u>73.1%</u>	\$0.1512
(3)	Parcels	\$0.7408	
	Average Letter	<u>\$0.1174</u>	
		\$0.6234	
	X proportion of parcels	<u>7.6%</u>	\$0.0477
(4)	Total		\$0.2159

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Presort

(1)	Manual Letters	\$0.1144	
	Average Letters	<u>\$0.0460</u>	
		\$0.0684	
	X proportion of letters	<u>18.3%</u>	\$0.0125
(2)	Flats	\$0.2074	
	Average Letters	<u>\$0.0460</u>	
		\$0.1614	
	X proportion of flats	<u>77.4%</u>	\$0.1250
(3)	Parcels	\$0.3789	
	Average Letter	<u>\$0.0460</u>	
		\$0.3329	
	X proportion of parcels	<u>4.2%</u>	\$0.0141
(4)	Total	\$0.1516	

DECLARATION

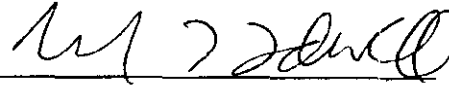
I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


SHARON DANIEL

Dated: Nov. 20, 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
November 20, 1997